A Report
to the
Montana
Legislature

Financial audit

Montana Board of Housing

For the Fiscal Year Ended June 30,2007

November 2007

Legislative Audit
Division

07-07

Financial Audits

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620

Legislative Audit Division
Room 160, State Capitol
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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

November 2007

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial audit of the Montana Board of Housing (board), a component unit of the state of Montana, for the fiscal year ended June 30, 2007. The objectives of this audit include determining if the financial statements for fiscal year 2006-07, with comparative financial amounts for fiscal year 2005-06, present fairly the Montana Board of Housing's financial position at June 30 for each fiscal year and the results of its operations for the fiscal years then ended. We also tested compliance with laws that have a direct and material effect on the financial statements. Additional compliance testing for the program is included in our biennial financial-compliance audit of the Department of Commerce. This report contains no recommendations to the board. The previous report also contained no recommendations.

On page A-1, you will find the Independent Auditor's Report followed by the Management's Discussion and Analysis, the financial statements and accompanying notes. The Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board. As disclosed in the Independent Auditor's Report, we did not audit the information and express no opinion on it. We issued an unqualified opinion on the financial statements, which means the reader can rely on the information presented.

The Board of Housing was created by the Montana Housing Act of 1975. The board is attached to the Housing Division within the Department of Commerce. The Montana Board of Housing's purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the state of Montana. The board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs and working in partnership with other housing providers throughout Montana. As of June 30, 2007, the maximum income limitations for qualifying for a loan ranged between $50,700 in most small Montana counties to $76,800 in Billings. The maximum qualifying purchase price and loan amount for a home was $237,031, with the exception that Federal Housing Authority backed loans were limited to $200,160. Qualifying mortgage loans made during the year ranged between $14,913 and $237,000.

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In addition to the annual financial audit of the board, our office performs special engagements for the Board of Housing throughout the year. These include agreed-upon procedures for the board and its underwriter to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report with the financial statements when the board issues bonds. We have also performed agreed-upon procedures at selected Board of Housing loan servicers to assist the board in evaluating the mortgage receivable information provided by the board's loan servicers and to determine compliance with contract requirements.

We thank the Board of Housing and its staff and the Department of Commerce staff for their cooperation and assistance during the audit. The board's response to our audit is on page B-1.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Montana Board of Housing			Term Expires
	J.P. Crowley, Chair	Helena	2009
	Betsy Scanlin, Vice Chair	Red Lodge	2009
	Susan Moyer, Secretary	Kalispell	2011
	Audrey Black Eagle	Lodge Grass	2009
	Robert Gauthier	Polson	2011
	Jeanette McKee	Hamilton	2011
	Jeff Rupp	Bozeman	2009

Administrative Officials:

Department of Commerce Anthony J. Preite, Director

Board of Housing

Bruce Brensdal, Executive Director

Chuck Nemec, Accounting and Finance Manager

Mat Rude, Multifamily Program Manager

Nancy Leifer, Single Family Program Manager

For additional information concerning the Montana Board of Housing, contact:

Bruce Brensdal, Executive Director
PO Box 200528
Helena MT 59620-0528
(406) 841-2840

E-mail: bbrensdal@mt.gov

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2007, and 2006, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Housing as of June 30, 2007, and 2006, and the results of its operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis is not a required part of the financial statements, but supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Combining Statement of Net Assets as of June 30, 2007, with comparative totals as of June 30, 2006, and the related Combining Statement of Revenues, Expenses, and Changes in Net Assets and Combining

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Statement of Cash Flows for the fiscal years then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 30, 2007

Montana Board of Housing
A Component Unit of the State of Montana
Management's Discussion and Analysis
Year Ended June 30, 2007

This section of the Montana Board of Housing's (MBOH's) annual financial report presents our discussion and analysis of the agency's financial performance during the fiscal year ended June 30, 2007. Please read this section in conjunction with the financial statements and accompanying notes.

Financial Summary

- 1,610 single-family mortgages were originated for $190 million.
- $2,275,000 of Low Income Tax Credits were allocated providing approximately $21 million of equity to produce or preserve 183 units of affordable rental housing.
- 17 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 81. Since its inception the RAM program has assisted 144 elderly households.
- Total new debt issued was $244 million.
- Total debt retired was $132 million.
- Total outstanding debt increased from $805 million to $917 million.
- Net Assets increased by $6 million during the 2007 fiscal year (see Condensed Financial Information on the following page)

Overview of the Financial Statements

The MBOH is a self-supporting entity using no Montana state government general fund appropriations to operate. The MBOH is classified as an enterprise fund, that is, a fund which is financed and operated in a manner similar to a private business enterprise.

The Net Assets – Restricted for Bondholders represent bond program funds that are pledged as collateral for the bondholders and are restricted by federal tax law to costs directly related to carrying out qualifying housing programs, qualifying mortgages or paying off bonds. These funds are therefore not available for use for other non-housing activities.

The financial statements are designed to provide the stakeholders of the MBOH, our citizens, taxpayers, legislatures, customers, clients, investors and creditors, with an overview of our finances and to demonstrate our accountability for the resources with which we are entrusted.

Montana Board of Housing
Condensed Financial Information
Change in Net Assets and Operating Income
Years ended June 30, 2007, 2006 and 2005

		2007	2006	2005
Assets:				
Current Assets	(1)	$ 233,646,575	$ 203,133,566	$ 209,903,196
Noncurrent Assets	(1)	833,539,558	$ 745,299,548	$ 698,828,844
Total Assets		$ 1,067,186,133	$ 948,433,114	$ 908,732,040
Liabilities:				
Current Liabilities		$ 17,139,993	$ 15,034,303	$ 14,545,671
Noncurrent Liabilities	(2)	903,808,300	$ 793,399,678	$ 756,226,009
Total Liabilities		$ 920,948,293	$ 808,433,981	$ 770,771,680
Net Assets:				
Invested in Capital Assets		$ 52,210	$ 55,004	$ 80,881
Restricted		146,185,630	$ 139,944,129	$ 137,879,479
Total Net Assets		$ 146,237,840	$ 139,999,133	$ 137,960,360
Operating Revenue:				
Interest on Loans	(3)	$ 44,069,482	$ 38,553,706	$ 37,146,816
Earnings from Investments	(4)	10,523,898	$ 6,620,427	$ 10,967,626
Fees and Charges		759,513	$ 980,177	$ 751,260
Total Operating Revenue		$ 55,352,893	$ 46,154,310	$ 48,865,702
Operating Expenses:				
Bond Expenses	(5)	$ 43,462,165	$ 38,883,157	$ 37,837,519
Servicing Fees		2,860,236	$ 2,534,835	$ 2,376,194
General and Administrative		2,791,514	$ 2,685,985	$ 2,245,652
Total Expenses		$ 49,113,915	$ 44,103,977	$ 42,459,365
Operating Income		$ 6,238,978	$ 2,050,333	$ 6,406,337
Payment to Primary Government		(271)		
Increase (Decrease) in Net Assets		$ 6,238,707	$ 2,050,333	$ 6,406,337
Net Assets, Beginning of Year		139,999,133	137,960,360	131,554,023
Prior Period Adjustment		0	$ (11,560)	
Net Assets, End of Year		$ 146,237,840	$ 139,999,133	$ 137,960,360

Discussion of Changes between 2007 and 2006

(1) Current assets increased by $30 million between 2007 and 2006 due to 2007B unexpended bond proceeds and growth in mortgages receivable and investments.
Mortgages Receivable increased $89 million between years causing the increase in noncurrent assets.

(2) Noncurrent Liabilities increased $110 million which is wholly attributable to increased Bonds Payable amount caused by the board issuing new bonds during the year. Financial Statement Note 8 contains details.

(3) Mortgage Loan Interest increased $5.5 million primarily due to a larger loan portfolio than 2006.

(4) Earning from investments increased $3.9 million; $2 million from greater amounts invested and $ 1.9 million in valuation changes required by GASB 31 (Financial Statements Note 1 - Investments).
In 2006, the reported unrealized loss was $2.9 million for the GASB 31 valuation compared to $1 million in 2007

(5) Bond Expenses and Servicing Fees increased due the greater number of bonds issued and outstanding and the greater number of mortgages being serviced.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	FY 2007	FY 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 13,817,978	$ 7,870,436
Investments	198,334,275	177,112,947
Mortgage Loans Receivable	16,178,048	13,191,347
Interest Receivable	5,241,313	4,677,039
Due from Primary Government	8,232	7,328
Due from Other Governments	1,525	-
Security Lending Collateral	-	41,972
Prepaid Expense	65,204	232,497
Total Current Assets	$ 233,646,575	$ 203,133,566
Noncurrent Assets		
Investments	$ 23,059,234	$ 26,540,652
Mortgage Loans Receivable	799,347,698	710,945,504
Mortgage Backed Securities	2,361,544	
Deferred Bond Issuance Costs, Net	8,718,872	7,758,388
Capital Assets, Net	52,210	55,004
Total Noncurrent Assets	$ 833,539,558	$ 745,299,548
TOTAL ASSETS	$ 1,067,186,133	$ 948,433,114
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 563,873	$ 440,673
Due to Primary Government	19,158	21,524
Security Lending Liability	-	41,971
Accrued Interest - Bonds Payable	4,165,248	3,519,431
Bonds Payable, Net	11,735,000	10,650,000
Arbitrage Rebate Payable to U.S. Treasury Department	590,054	314,204
Accrued Compensated Absences	66,660	46,500
Total Current Liabilities	$ 17,139,993	$ 15,034,303
Noncurrent Liabilities		
Bonds Payable, Net	$ 905,594,144	$ 794,476,577
Deferred Refunding Costs	(2,475,726)	(1,991,845)
Arbitrage Rebate Payable to U.S. Treasury Department	606,900	826,928
Accrued Compensated Absences	82,982	88,018
Total Noncurrent Liabilities	$ 903,808,300	$ 793,399,678
TOTAL LIABILITIES	$ 920,948,293	$ 808,433,981
NET ASSETS		
Invested in Capital Assets, Net	$ 52,210	$ 55,004
Restricted for Bondholders:		
Unrealized (losses) gains on investments	583,279	1,606,245
Single Family Programs	101,362,438	86,521,510
Various Recycled Mortgage Programs	23,152,201	34,085,292
Multifamily Programs	10,339,931	9,838,105
Multifamily Project Commitments	216,412	220,867
Reverse Annuity Mortgage Program	7,658,025	4,825,002
Restricted for Affordable Revolving Loan Program	2,873,344	2,847,108
TOTAL NET ASSETS	$ 146,237,840	$ 139,999,133

The accompanying notes are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	FY 2007	FY 2006
OPERATING REVENUES		
Interest Income - Mortgage Loans	$ 44,069,482	$ 38,553,706
Interest Income - Investments	11,546,853	9,578,702
Fee Income	316,117	315,600
Federal Financial Assistance	379,045	598,450
Net Increase (Decrease)		
in Fair Value of Investments	(1,022,965)	(2,958,275)
Other Income	64,270	65,519
Securities Lending Gross Income	91	609
Total Operating Revenues	$ 55,352,893	$ 46,154,311
OPERATING EXPENSES		
Interest on Bonds	$ 41,455,972	$ 37,272,424
Servicer Fees	2,860,236	2,534,834
Contracted Services	1,144,148	1,039,470
Amortization of Bond Issuance Costs	1,058,667	362,622
General and Administrative	1,647,275	1,645,907
Arbitrage Rebate Expense	356,308	300,379
Loss on Redemption	591,218	947,732
Securities Lending Expense	91	609
Total Operating Expenses	$ 49,113,915	$ 44,103,978
Operating Income (Loss) Before Transfers	6,238,978	2,050,333
Payment to Primary Government	(271)	
Increase (Decrease) in Net Assets	$ 6,238,707	2,050,333
Net Assets, Beginning of Year	139,999,133	137,960,360
Prior Period Adjustment	-	(11,560)
Net Assets, End of Year	$ 146,237,840	$ 139,999,133

The accompanying notes are an intergral part of these financial statements.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITY		
Receipts for Sales and Services	$ 311,222	$ 315,600
Collections on Loans and Interest on Loans	143,401,084	142,053,626
Cash payments for Loans	(191,659,532)	(153,394,580)
Federal Financial Assistance Receipts	377,519	631,089
Payments to Suppliers for Goods and Services	(4,454,975)	(4,287,654)
Payments to Employees	(954,809)	(968,617)
Other Operating Revenues	70,723	67,872
Net Cash Provided (Used) by Operating Activities	$ (52,908,768)	$ (15,582,664)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment of Principal and Interest on Bonds and Notes	$ (173,406,804)	$ (154,169,130)
Proceeds from Issuance of Bonds and Notes	239,910,000	152,840,000
Payment of Bond Issuance Costs	(2,565,797)	(2,275,232)
Premium Paid on Refunding Bonds	4,942,494	2,477,860
Net Cash Provided (Used) by Noncapital Financing Activities	$ 68,879,893	$ (1,126,502)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchase of fixed assets	$ (22,329)	$ (14,040)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	$ (1,049,382,465)	$ (1,173,189,259)
Proceeds from Sales or Maturities of Investments	1,030,239,300	1,182,924,810
Interest on Investments	9,442,396	9,509,575
Arbitrage Rebate Tax (Note 12)	(300,485)	(421,329)
Net Cash Provided (Used) by Investing Activities	$ (10,001,254)	$ 18,823,797
Net Increase (Decrease) in Cash and Cash Equivalents	$ 5,947,542	$ 2,100,591
Cash and Cash Equivalents,beginning bal.	$ 7,870,436	$ 5,771,587
Prior Period Adjustment		(1,742)
Cash and Cash Equivalents, ending bal.	$ 13,817,978	$ 7,870,436

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	FY 2007	FY 2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 6,238,978	$ 2,050,333
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	23,855	30,142
Amortization	350,462	443,182
Interest Expense	42,749,511	38,139,556
Interest on Investments	(11,473,225)	(9,578,702)
Arbitrage Rebate Tax	356,308	300,379
(Incr) Decr in Fair Value of Investments	1,022,965	2,958,275
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	(87,367,047)	(47,338,337)
Decr (Incr) in Other Assets	(974,087)	(111,910)
Incr (Decr) in Accounts Payable	168,594	(24,545)
Incr (Decr) in Deferred Reservation & Disc. Fees	(4,020,206)	(2,468,099)
Incr (Decr) in Compensated Absences Payable	15,124	17,062
Net Cash Provided (Used) by Operating Activities	$ (52,908,768)	$ (15,582,664)

The accompanying notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1,500,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached for administrative purposes to the Housing Division, Department of Commerce.

Basis of Presentation:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Board implemented GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus" and No. 38, "Certain Financial Statement Note Disclosures". In order to comply with the requirements of the statements noted, the Board's financial statements include a classified statement of net assets, a statement of revenues, expenses, and changes in net assets that reports operating and nonoperating revenues and expenses, and the statement of cash flows. In addition, the "Management's Discussion and Analysis" precedes the financial statements as required supplementary information. Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net assets and revenues and expenses for the period. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed to the extent they do not conflict with or contradict GASB guidance. The Board has the option of following subsequent private sector guidance for business-type activities but has not elected to do so. The financial statements of the Board are presented on a combined basis. The combining financial information can be found in the supplemental information following these notes.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's Basic Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, net assets, revenues, and expenses. The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting - continued:
Restricted Net Assets - The Board follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46 – Net Assets Restricted by Enabling Legislation. According to the statement, Net Assets are considered restricted if they are limited as to the manner in or purpose for which they may be used. The Combined Statement of Revenues, Expenses and Changes In Net Assets reports $146,237,840 of restricted net assets, of which $146,237,840 is restricted by enabling legislation.

Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Assets: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain mortgage and debt service reserve requirements, restricting funds for these purposes. As disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

Restricted Net Assets also include funds reserved by participants and funds committed to specific projects under various programs established by the Board.

Revenue and Expense Recognition:
Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure:
The Board's program funds and other funds have been presented on a combined basis, as the Board is considered a single enterprise fund for financial reporting purposes. A description of the funds established by the Board follows:

Single Family Mortgage Program Funds - These funds, established under two separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development.

The accompanying combining financial statements include the activity of both Single Family Mortgage Program Funds. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indentures.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established to account for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The Federal Housing Administration must insure mortgage loans originated prior to December 1992.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Structure - continued

On November 10, 1998, the Board issued $1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established to account for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans originated under this Indenture are not required to be insured by the Federal Housing Administration.
The Multifamily Program Fund on the combining financial statements includes activity for both Indentures.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

Affordable Revolving Loan Account - Under MCA 90-6-133, a Revolving Loan Account was established. The account was established in the state special revenue fund in the state treasury. For purposes of financial reporting, the Board has reclassified this account as an enterprise fund as allowed in GASB Statement No. 34. The money in the loan account is allocated to the board for the purposes of providing loans to eligible applicants. Currently, the account holds loans and resources provided by the Federal Housing and Urban Development Section 8 administrative fee reserve account and the Temporary Assistance to Needy Families (TANF) block grant to the state.

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short term investment pool. Cash and equivalents are described in Note 2 of these financial statements.

Investments:

Effective June 30, 2005, The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in Note 4 of these financial statements.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustees.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or private mortgage insurance or guaranteed by the VA (Veterans Administration) or RD (Rural Development) or private mortgage insurers. Guidelines to minimize credit risk are established by FHA, VA, RD & Board policies.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Mortgage Loans Receivable - continued

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.
Estimated losses are determined based on management's judgment, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.
The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

The Board has pledged future revenues collected from mortgages receivable accounts to bondholders for repayment of the mortgage revenue bonds issued by the Board (Note 8). The Board issued these bonds to finance the mortgage loans purchased by the Board's various programs. In accordance with GASB 48, the pledging of these revenues is considered a collateralized borrowing based on the Board retaining control of the receivables and evidenced by the Board's active management of these accounts.

Mortgage-Backed Securities:
Mortgage-backed securities reported in the Single Family Programs are pass-through securities created by the Federal National Mortgage Association (FNMA) and purchased by the board. FNMA pools and securitizes qualified Montana mortgage loans from the board's Single Family Programs. Consistent with GASB No. 31, these securities are reported at fair value which may vary from the value of the securities if held to maturity.

Bonds Payable:
Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Estimates:
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These statements contain estimates for Arbitrage Rebate Liability and Allowance for Loan Losses.

Capital Assets:
Capital assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of capital assets consist of computers and software. The capitalization threshold for recording capital assets is $5,000. Purchases under this threshold are recorded as expenses in the current period.

Compensated Absences:
The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are held by trustees or by the State of Montana Treasury as cash or short-term investments. At June 30, 2007 and 2006, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds	2007	2006
Short-Term Investments	$ 11,227,962	$ 4,504,333
State Short-Term Investment Pool*	1,648,371	2,559,184
Cash Deposited with Trustee Banks**	475,578	415,345
Cash Deposited with State Treasury	466,067	391,574
	$ 13,817,978	$ 7,870,436

*The State's Short Term Investment Pool (STIP) is managed by the Montana Board of Investments. STIP balances are covered by federal depository insurance or collateralized by securities held by third parties in the Board of Investment's name. Net assets of the pool are equivalent to $1 per share of the pool.

**Cash deposits are held at the trustee banks. Net assets are equal to $1 per share. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to $100,000 of insurance coverage.

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2007 and 2006, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal years 2007 and 2006 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2007 and 2006. More over, there were no losses during fiscal years 2007 and 2006 resulting from a default of the borrowers or State Street.

During fiscal years 2007 and 2006, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 2007 and June 30, 2006, BOI had no credit risk exposure to borrowers.

On June 30, 2007, there were no securities on loan.
On June 30, 2006, there were $41, 971 of securities on loan.

NOTE 4. INVESTMENTS

The Board invests the following funds; bond proceeds until the amounts are used to purchase mortgage loans, mortgage loan collections until debt service payment dates, and reserves and operating funds until needed. The Board follows Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in the following paragraphs.

Power to Invest & Investment Policy

Montana statute grants the Board the power to invest any funds not required for immediate use, subject to any agreements with its bondholders and note holders. The Board conducts its investing according to an investment policy which is annually reviewed and follows bond indenture, Internal Revenue Code, and state statutes. The policy prohibits the Board from investing in leveraged investments, including but not limited to derivatives. The Board's policy follows state law by limiting investments to following:

- Direct obligations or obligations guaranteed by the United States of America
- Indebtedness issued or guaranteed by Government Sponsored Entities such as Federal Home Loan Bank System, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation, for example.
- Certificates of Deposit insured by the Federal Deposit Insurance Corporation.
- Guaranteed Investment Agreements or Repurchase Agreements

Credit Risk

Credit risk is the risk that the other party to an investment will not fulfill its obligations. Board investment policy mitigates this risk by requiring financial institutions to be rated in either of the two highest rating categories by Standard & Poor's and Moody's Investors Services. The Board enters into guaranteed investment agreements and repurchase agreements as directed by bond indentures. The table included in this note identifies investment agreement participants and their ratings.

Credit Risk Concentration

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment with a single investment provider. Board investment policy follows the prudent expert principle as contained in Chapter 17, Part 6, Montana Code Annotated. This principle instructs investing entities to diversify investment holding to minimize the risk of loss. The table included in this note displays both investment provider and investment source diversity.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover the full value of investments or will not be able to recover collateral securities that are in the possession of an outside party.
Board investment policy requires that investment contracts and repurchase agreements be fully collateralized with securities and cash held by the provider's agent and confirmed by the Board's trustee as required by the bond indentures. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement.

NOTE 4. INVESTMENTS - continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board's investment policy does not explicitly address interest rate risk. However, the policy indirectly speaks about interest rate risk by stating that investments are to be held to maturity and not for the intention of generating investment return. Typically, long-term investments are only sold as a result of refunding a bond issue or to meet liquidity needs. The following table displays Effective Duration for appropriate investment types or NA (not applicable) to indicate interest rate risk. All funds and component units of the State of Montana are required to use the duration method to report interest rate risk.

Investment Type & Source	Fair Value June 30,2007	Moody's Rating	Standard & Poor's Rating	Effective Duration
Investment Contracts				
AIG Matched Funding Corp	$ 17,375,601	NR**	NR**	NA
Bayerische Landesbank	6,614,598	NR	NR	NA
Société Générale *	11,954,018	NR	NR	NA
Rabobank Nederland	76,339,392	NR	NR	NA
Trinity Plus Funding Co.	9,207,854	NR	NR	NA
Westdeutsche Landesbank	2,632,408	NR	NR	NA
Total	$ 124,123,871			
Government Sponsored Entities				
Federal Home Loan Bank	$ 29,414,479	Aaa	AAA	0.05
Federal National Mortgage Assoc.	54,068,159	Aaa	AAA	4.13
Federal Home Loan Mortgage Corp.	9,821,379	Aaa	AAA	0.16
Total	$ 93,304,017			
U. S. Treasury	$ 6,237,621	NA	NA	9.93
Trustee Cash & Money Market Accounts	11,703,540	NA	NA	NA
State Cash & Short-term Pool Accounts	2,114,438	NA	NA	NA
Total	$ 20,055,599			
Grand Total	$ 237,483,487			

* As of June 30, 2007 original, unexpended bond proceeds of $ 76,339,392 were on deposit in the 2007B program acquisition fund to be used for the purchase of Single Family Mortgage loans. The 2007B bonds were issued on May 17, 2007.
** Investment Contracts are not rated (NR). However, the providers are required to meet ratings described in the Credit Risk section of this note.

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. In accordance with Governmental Accounting Standards Board (GASB) 48, the pledging of Mortgage Loans Receivable is considered a collateralized borrowing. Mortgage loans receivable consist of the following:

	2007	2006
Mortgage loan receivables:		
Single Family Program	$789,769,860	$702,343,163
Multifamily Program	14,631,567	15,379,143
Housing Trust Program	2,348,009	1,706,519
Affordable Revolving Loan Account	2,578,574	2,530,492
	809,328,010	721,959,317
Net mortgage discounts and deferred reservation fees	6,497,738	2,477,535
Allowance for loan losses and real estate owned (note 6)	(300,000)	(300,000)
	$815,525,748	$724,136,852

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 2005	$ 300,000
Provision	0
Less: Net loans charged off	0
Balance, June 30, 2006	300,000
Provision	0
Less: Net loans charged off	0
Balance, June 30, 2007	$ 300,000

The allowance for loan losses includes $200,000 at June 30, 2007 and 2006 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held two real estate owned properties as of June 30, 2007 and two real estate owned properties as of June 30, 2006.

NOTE 7. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment. Balances are as follows:

	2007	2006
Capital Assets - Equipment	$ 6,195	$ 62,665
Capital Assets - Software	55,590	49,832
Accumulated depreciation	(5,575)	(57,493)
Net capital assets	$ 52,210	$ 55,004

Depreciation and amortization expense included in general and administrative expense was $22,015 and $28,358 for the years ended June 30, 2007 and 2006 respectively.

NOTE 8. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	Original Amount	2007	2006
Single Family I Mortgage Bonds:			
1997			
Bonds were refunded on May 15, 2007 by the Single Family I 2007 Series B bonds.	$91,360,000	$0	$37,615,000
1999			
Series A-1 and A-2 serial and term bonds 4.35% to 5.75% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2014, December 1, 2020, June 1, 2030 and December 1, 2030 and December 1, 2031.	60,000,000	14,190,000	17,095,000
2000			
Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032.	87,695,000	11,515,000	15,045,000
2000			
Series B-1 and B-2 serial and term bonds 4.40% to 7.95% maturing in scheduled semi-annual installments to June 1, 2015, and on June 1, 2020, December 1, 2020, December 1, 2029, June 1, 2032 December 1, 2031.	71,940,000	24,805,000	30,835,000
2001			
Series A-1 and A-2 serial and term bonds 4.30% to 5.70% maturing in scheduled semi-annual installments to December 1, 2020, December 1, 2023 December 1, 2031, June 1, 2032 and December 1, 2032	71,000,000	25,410,000	32,330,000
2002			
Series A-1 and A-2 serial and term bonds 1.70% to 5.60% maturing in scheduled semi-annual installments to December 1, 2022, December 1, 2032 and December 1, 2033.	39,000,000	17,025,000	20,715,000
2002			
Series B-1 and B-2 serial and term bonds 2.30% to 5.55% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2026, December 1, 2032, June 1, 2033, December 1, 2033, and June 1, 2034.	52,190,000	28,710,000	34,200,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2007	2006
2005 Series A serial and term bonds 2.80% to 5.60% maturing in scheduled semi-annual installments to December 1, 2013, December 1, 2030, December 1, 2035, and June 1, 2036.	93,785,000	86,590,000	93,455,000
2006 Series A serial and term bonds 3.40% to 5.25% maturing in scheduled semi-annual installments to June 1, 2016, December 1, 2016, December 1, 2025, December 1, 2036, and June 1, 2037.	50,560,000	50,045,000	50,560,000
2006 Series B serial and term bonds 3.75% to 5.50% maturing in scheduled semi-annual installments to June 1, 2016, June 1, 2021, June 1, 2026, June 1, 2037, and December 1, 2037.	72,000,000	71,545,000	72,000,000
2006 Series C serial and term bonds 3.50% to 5.75% maturing in scheduled semi-annual installments to June 1, 2009, December 1, 2016, December 1, 2021, December 1, 2026, December 1, 2031, June 1, 2037 and December 1, 2037.	70,805,000	69,930,000	0
2007 Series A-1 and A-2 serial and term bonds 3.65% to 5.50% maturing in scheduled semi-annual installments to June 1, 2017, December 1, 2019, December 1, 2022, December 1, 2027, December 1, 2032, June 1, 2037, December 1, 2037, and December 1, 2039.	86,015,000	86,015,000	0
2007 Series B serial and term bonds 3.75% to 5.50% maturing in scheduled semi-annual installments to December 1, 2017, December 1, 2022, December 1, 2027, December 1, 2032, December 1, 2037 and June 1, 2038.	83,090,000	83,090,000	0
Bonds outstanding Single Family I		$ 568,870,000	$ 403,850,000
Unamortized bond premium		8,563,530	4,265,891
Total bonds payable Single Family I		$ 577,433,530	$ 408,115,891

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2007	2006
Single Family II Mortgage Bonds:			
1985 Series A, serial, term, Postponed Revenue On Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments to December 1, 2004 and December 1, 2015 to June 1, 2016.	$ 39,999,625	$ 1,063,518	$ 1,138,152
1985 Series B, term bonds maturing in scheduled semi-annual installments to June 1, 2011.	74,996,862	480,000	675,000
1994 Outstanding bonds were called December 1, 2007.	25,725,000	0	420,000
1996 Bonds were refunded on March 7, 2007 by the Single Family I 2007 Series A bonds.	65,000,000	0	10,805,000
1998 Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, December 1, 2030 and June 1, 2031.	51,780,000	16,385,000	18,870,000
1998 Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments to December 1, 2005 and on December 1, 2013, and on December 1, 2005, December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and , June 1, 2031.	65,000,000	23,430,000	24,490,000
2003 Series A-1 and A-2 serial and term bonds 1.20% to 4.90% maturing in scheduled semi-annual installments to December 1, 2024, June 1, 2033, December 1, 2033, June 1, 2034, June 1, 2035, June 1, 2042, and December 1, 2042.	52,520,000	40,190,000	44,965,000
2003 Series B-1 and B-2 serial and term bonds 1.10% to 4.50% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2024, December 1, 2025, December 1, 2026, December 1, 2027, December 1, 2028, December 1, 2032, December 1, 2033, December 1, 2034, December 1, 2041, and December 1, 2042.	70,700,000	51,600,000	58,770,000

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2007	2006
2003 Series C serial and term bonds 1.45% to 5.05% maturing in scheduled semi-annual installments to June 1, 2023, December 1, 2023, December 1, 2028, and December 1, 2034.	40,500,000	28,885,000	33,930,000
2004 Series A serial and term bonds 1.40% to 5.00% maturing in scheduled semi-annual installments to December 1, 2023, June 1, 2024, June 1, 2029, December 1, 2029, and June 1, 2035.	50,600,000	36,030,000	43,030,000
2004 Series B serial and term bonds 1.85% to 5.75% maturing in scheduled semi-annual installments to December 1, 2014, June 1, 2015, December 1, 2024, December 1, 2030 and December 1, 2035.	68,000,000	52,390,000	61,980,000
2004 Series C serial and term bonds 2.00% to 5.00% Maturing in scheduled semi-annual installments To December 1, 2016, December 1, 2025, December 1, 2030, June 1, 2035, and December 1, 2035.	54,600,000	46,470,000	52,095,000
2005 RA Series A serial and term bonds 4.10% to 4.75% maturing in scheduled semi-annual installments to December 1, 2016, December 1, 2017, December 1, 2021, December 1, 2026, December 1, 2027, and June 1, 2044.	30,280,000	27,675,000	29,465,000
Bonds outstanding Single Family II		$ 324,598,518	$ 380,633,152
Unamortized bond premium / discount		3,992,747	4,799,354
Total bonds payable Single Family II		$ 328,591,265	$ 385,432,506
Total Single Family Mortgage bonds payable, net		$ 906,024,795	$ 793,548,397

All single-family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family I and II mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

NOTE 8. BONDS PAYABLE, NET - continued

Board of Housing Essential Workers' Program
The Board has authorized the issuance of $1,000,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to Ravalli County teachers. As of June 30, 2007, no bonds have been issued.

The Board has authorized the issuance of $ 250,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to essential employees in rural areas within fifteen miles of Manhattan, Three Forks, Amsterdam, Churchill and Willow Creek, Montana. As of June 30, 2007, no bonds have been issued.

	Original Amount	2007	2006
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	$4,865,000	$830,000	$865,000
1996			
Series A, 4.10% to 6.15% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2011, and on August 1, 2016, and August 1, 2026.	890,000	720,000	740,000
1998			
Series A 3.5% to 4.70% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,225,000	1,250,000
1999			
Series A 4.95% to 8.45% interest, term Bonds, maturing in scheduled semi annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2041 and August 1, 2039.	9,860,000	8,570,000	8,765,000
Total bonds outstanding		11,345,000	11,620,000
Unamortized bond premium		(40,651)	(41,820)
Total Multifamily Mortgage bonds payable, net		$ 11,304,349	$ 11,578,180

All Multifamily mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 102%.
The 1998A Multifamily bonds are general obligations of the Board.

	2007	2006
Combined Total Single and Multifamily bonds payable, net	$ 917,329,144	$ 805,126,577

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 8. BONDS PAYABLE, NET - continued

The following is a summary of bond principal and interest requirements as of June 30, 2007:

Fiscal Year Ending	Single Family Principal and Interest Total	Multifamily Principal and Interest Total	Single and Multifamily Principal Only Total	Single and Multifamily Interest Only Total
2008	$ 55,864,700	$ 971,144	$ 11,735,000	$ 45,100,844
2009	58,113,273	970,847	14,675,000	44,409,119
2010	57,781,283	973,768	14,960,000	43,795,051
2011	57,775,568	970,581	15,605,000	43,141,149
2012	57,660,131	965,753	16,185,000	42,440,884
2013-17	295,823,387	4,314,568	100,433,391	199,704,564
2018-22	297,997,765	3,742,907	129,185,000	172,555,673
2023-27	307,574,849	3,468,557	176,260,000	134,783,406
2028-32	294,338,453	2,874,110	212,470,000	84,742,563
2033-37	207,026,301	2,719,755	177,965,000	31,781,056
2038-42	35,032,633	2,286,474	33,505,000	3,814,106
2043-47	3,369,950	-	3,225,000	144,950
Total	$1,728,358,292	$ 24,258,463	$ 906,203,391	$ 846,413,364

Cash paid for interest expenses during the years ending June 30, 2007 and 2006 was $ 43,297,738 and $ 38,139,595, respectively.

Changes in Bonds Payable

	6/30/2006 Balance	Increases	Decreases	6/30/2007 Balance
Single Family	$ 793,548,397	244,311,114	(131,834,716)	$ 906,024,795
Multi Family	11,578,180		(273,831)	11,304,349
Total	$ 805,126,577	244,311,114	(132,108,547)	$ 917,329,144

NOTE 9. LOSS ON REDEMPTION

During the years ended June 30, 2007 and 2006 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	2007	2006
Single Family I		
December 1	$21,050,000	$25,105,000
June 1	13,185,000	10,770,000
	34,235,000	35,875,000
Single Family II		
December 1	22,809,829	46,804,127
June 1	17,215,000	23,915,000
	40,024,829	70,719,127
Multifamily	0	0
Total	$ 74,259,829	$106,594,127

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as losses on redemption of $ 591,218 and $947,732 in 2007 and 2006, respectively.

NOTE 10. COMMITMENTS

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately $7,682,985 and $63,561,014 from the issuance of the 2007 Series A and 2007 Series B Bonds, respectively.

The Board has committed to purchase Single Family Mortgages as noted below:

Neighborhood Housing Services MT Home Ownership Network Lender Pool	$1,065,955
MT Home Ownership Network Lender Pool	1,483,916
FNMA Home Ownership	1,148,919
District XI Human Resource Council Missoula	700,000
Teachers Conventional Loans	425,188
Manhattan State Bank Essential Employees	1,350,000
Lake County	1,063,825
Butte Housing Authority	750,000
GR8 Hope	1,757,878
GAP Financing Program	692,818
Foreclosure Prevention	50,000
Disabled Affordable Accessible Homeownership Program	1,032,967
Lot Refinance	869,252
Habitat for Humanity	576,613
HUD Section 184-Indian Housing	1,592,307
Chippewa Cree	2,000,000
USDA Rural Housing Development	604,136
Down Payment Pool	5,996,853
Total Single Family Commitments	$23,152,201

Other Commitments—

Single Family I commitment:

Reverse Annuity Mortgage Program Future Loans	$750,000

Multifamily commitment:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	$216,412

Housing Trust Fund commitment:

Reverse Annuity Mortgage Program Existing Loans	$2,690,255

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 11. EMPLOYEE BENEFIT PLANS

The Board of Housing and its employees contribute to the Public Employees' Retirement System (PERS). PERS offers two types of retirement plans administered by the Montana Public Employees' Retirement Administration.

Defined Benefit Retirement Plan: The Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Vesting occurs once membership service totals five years. Benefits are established by state law and can only be amended by the legislature.

NOTE 11. EMPLOYEE BENEFIT PLANS - continued

Defined Contribution Retirement Plan: The Defined Contribution Retirement Plan (DCRP), created by the 1999 legislature and available to all active PERS members effective July 1, 2002. This plan is a multiple-employer, cost-sharing plan that also provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan, and the investment earnings less administrative costs.

The PERS issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park Suite 220
Helena, MT 59620-0131
406-444-3154

Contribution rates for the plans are required and determined by State law.

The contribution rates for 2007 expressed as a percentage of covered payroll are as follows:

Employee	Employer	Total
6.90%	6.90%	13.80%

The amounts contributed to the plans during the years ended June 30, 2005, 2006, and 2007 were equal to the required contribution each year. The amounts contributed by both the Board and by employees, as required by State law, were as follows:

Fiscal Year 2007 - $ 49,120
Fiscal Year 2006 - $ 49,514
Fiscal Year 2005 - $ 47,719

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

NOTE 12. ARBITRAGE REBATE LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

Beginning Balance July 1, 2006	$ 1,141,133
Additions	356,308
Reductions	(300,485)
Ending Balance June 30, 2007	$1,196,956

NOTE 13. NO-COMMITMENT DEBT

The Board of Housing is authorized to issue its bonds and to make mortgage loans in order to finance housing which will provide decent, safe and sanitary housing for persons and families of lower income in the State of Montana.

The bonds are not general obligations, debts, liabilities or pledges of faith and credit of the Board but are special limited obligations payable solely from pledged revenues and assets. The Board is not obligated to make payment on the bonds from any of its assets other than those revenues and assets so pledged. The Board has no taxing power. Accordingly, these bonds are not reflected in the accompanying financial statements.

The bonds are not a debt of the state and the state is not liable for the bonds. Neither the state's faith or credit or taxing power is pledged to the payment of bond principal or interest.

Bond Series	Original Amount	Outstanding as of 6/30/2007
Single Family Mortgage Revenue Bonds Series 2005A-1	$ 516,000	$ 250,000
Multifamily Housing Revenue Bonds Series 2006A	$ 2,104,700	$ 2,094,996

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

On September 20, 2006, Series 2006 C was issued in the amount of $ 70,805,000. Of the proceeds, $10,805,000 was used as an advance refunding of the Series 1996 A bonds which were refunded on December 1, 2006.

On March 7, 2007, Series 2007 A was issued in the amount of $ 86,015,000. Of the proceeds, $36,015,000 was used as an advance refunding of the Series 1997 A bonds which were refunded on June 1, 2007.

The refunding of the 1996A and 1997A bonds resulted in economic gains of $7,750,063 and differences in cash flow requirements of $4,522,708.

Under Governmental Accounting Standards Board (GASB) Statement 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following costs associated with the refunding were deferred and are being amortized under the GASB 23 guidelines:

FY 2007 Refunding:	
Cost of Issuance related to the refunded bonds	$ 360,915
Premium paid on the refunded bonds	612,400
Total deferred refunding costs	$ 973,315
Less amortization FY 2007	7,717
Amount remaining to be amortized on FY 2007 issues	$ 965,598
Prior years' Refundings:	
Unamortized Deferred refunding costs from prior years' refunding	$1,510,128
Total unamortized	$2,475,726

NOTE 15. SUBSEQUENT EVENTS

On August 9, 2007, the Board issued $50,600,000 of Single Family Mortgage Bonds Series 2007 C. The Bonds will mature on June 1, 2009, through December 1, 2038, with interest rates from 3.875% to 5.75%. Bond proceeds will be used to purchase single family mortgage loans for the board's Homeownership Program.

On September 12, 2007, the Board issued $5,100,000 of Multifamily Housing Revenue Bonds Series 2007. Bond proceeds will be used to finance a loan to South Forty Partners, L.P., a Montana limited partnership, to assist in the financing of the acquisition, rehabilitation and equipping of the South Forty Apartments Project, a 101-unit affordable housing development located in Billings, Montana. The bonds are not a general obligation, debt, liability or a pledge of the faith and credit of the Board of Housing and are payable solely from the pledged receipts of the project.

Both bond series are not debts of the state and the state is not liable for the bonds. Neither the state's faith or credit or taxing power is pledged to the payment of bond principal or interest.

A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN FUND	COMBINED TOTALS FY 2007	COMBINED TOTALS FY 2006
ASSETS								
Current Assets								
Cash and Cash Equivalents	$ 4,481,299	$ 3,683,903	$ 8,165,202	$ 3,370,718	$ 2,088,740	$ 193,318	$ 13,817,978	$ 7,870,436
Investments	133,159,701	62,888,634	196,048,335	2,285,940	-	-	198,334,275	177,112,947
Mortgage Loans Receivable	8,547,381	7,075,259	15,622,640	543,545	-	11,863	16,178,048	13,191,347
Interest Receivable	2,899,394	1,799,487	4,698,881	76,549	364,429	101,454	5,241,313	4,677,039
Interfund Receivable *	309,377		309,377				309,377	990,000
Due from Primary Government	4,878	3,354	8,232	-	-		8,232	7,328
Due from Other Governments		1,525	1,525				1,525	-
Security Lending Collateral					-	-	-	41,972
Prepaid Expense	29,312	29,311	58,623	1,729	4,852	-	65,204	232,497
Total Current Assets	$ 149,431,342	$ 75,481,473	$ 224,912,815	$ 6,278,481	$ 2,458,021	$ 306,635	$ 233,955,952	$ 204,123,566
Noncurrent Assets								
Investments	$ 5,387,444	$ 16,565,854	21,953,298	$ 1,105,936	$ -	$ -	$ 23,059,234	$ 26,540,652
Mortgage Loans Receivable	471,148,513	309,196,445	780,344,958	14,088,022	2,348,009	2,566,709	799,347,698	710,945,504
Mortgage Backed Securities	702,946	1,658,598	2,361,544				2,361,544	
Deferred Bond Issuance Costs, Net	5,490,574	3,063,247	8,553,821	165,051	-	-	8,718,872	7,758,388
Capital Assets, Net	12,844	16,242	29,086	378	22,746	-	52,210	55,004
Total Noncurrent Assets	$ 482,742,321	$ 330,500,386	$ 813,242,707	$ 15,359,387	$ 2,370,755	$ 2,566,709	$ 833,539,558	$ 745,299,548
TOTAL ASSETS	$ 632,173,663	$ 405,981,859	$ 1,038,155,522	$ 21,637,868	$ 4,828,776	$ 2,873,344	$ 1,067,495,510	$ 949,423,114
LIABILITIES								
Current Liabilities								
Accounts Payable	$ 282,969	$ 213,546	$ 496,515	$ 13,485	$ 53,873	$ -	$ 563,873	$ 440,673
Interfund Payable *	-	309,377	309,377				309,377	990,000
Due to Primary Government	7,312	7,312	14,624	2,456	2,078	-	19,158	21,524
Security Lending Liability	-	-	-		-	-	-	41,971
Accrued Interest - Bonds Payable	2,593,180	1,286,168	3,879,348	285,900	-	-	4,165,248	3,519,431
Bonds Payable, Net	6,630,000	4,815,000	11,445,000	290,000	-	-	11,735,000	10,650,000
Arbitrage Rebate Payable to U.S.	-							
Treasury Department	267,330	322,724	590,054	-	-	-	590,054	314,204
Accrued Compensated Absences	25,777	25,777	51,554	8,636	6,469	-	66,660	46,500
Total Current Liabilities	$ 9,806,568	$ 6,979,904	$ 16,786,472	$ 600,477	$ 62,420	$ -	$ 17,449,369	$ 16,024,303
Noncurrent Liabilities								
Bonds Payable, Net	$ 570,803,530	$ 323,776,265	$ 894,579,795	$ 11,014,349	$ -	$ -	$ 905,594,144	$ 794,476,577
Deferred Refunding Costs	(1,362,401)	(1,113,325)	(2,475,726)	-	-	-	(2,475,726)	(1,991,845)
Arbitrage Rebate Payable to U.S.								
Treasury Department	282,262	324,638	606,900	-	-	-	606,900	826,928
Accrued Compensated Absences	32,088	32,089	64,177	10,751	8,054	-	82,982	88,018
Total Noncurrent Liabilities	$ 569,755,479	$ 323,019,667	$ 892,775,146	$ 11,025,100	$ 8,054	$ -	$ 903,808,300	$ 793,399,678
TOTAL LIABILITIES	$ 579,562,047	$ 329,999,571	$ 909,561,618	$ 11,625,577	$ 70,474	$ -	$ 921,257,669	$ 809,423,981
NET ASSETS								
Invested in Capital Assets, Net	$ 12,844	$ 16,242	$ 29,086	$ 378	$ 22,746	$ -	$ 52,210	$ 55,004
Restricted for Bondholders:								
Unrealized (losses) gains on investments	(197,631)	807,554	609,923	(26,644)	-	-	583,279	1,606,245
Single Family Programs	52,796,402	48,566,036	101,362,438	-		-	101,362,438	86,521,510
Various Recycled Mortgage Programs	-	23,152,201	23,152,201	-	-	-	23,152,201	34,085,292
Multifamily Programs	-	-	-	9,822,145	517,786	-	10,339,931	9,838,105
Multifamily Project Commitments	-	-	-	216,412		-	216,412	220,867
Reverse Annuity Mortgage Program		3,440,255	3,440,255	-	4,217,770	-	7,658,025	4,825,002
Restricted for Affordable Revolving Loan Program	-	-	-	-	-	2,873,344	2,873,344	2,847,108
TOTAL NET ASSETS	$ 52,611,615	$ 75,982,289	$ 128,593,904	$ 10,012,291	$ 4,758,301	$ 2,873,344	$ 146,237,840	$ 139,999,133

* Interfund Payable & Receivable records a temporary loan between Board program funds that is expected to be repaid within one year. The loan is excluded from the Board's Statement of Net Assets because it is not an obligation to an external entity. The Statement of Net Assets Current Assets and Current Liabilities balances therefore does not include the amount of this loan.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN FUND	COMBINED TOTALS FY 2007	COMBINED TOTALS FY 2006
OPERATING REVENUES								
Interest Income - Mortgage Loans	$ 25,392,279	$ 17,656,695	$ 43,048,974	$ 871,268	$ 107,663	$ 41,577	$ 44,069,482	$ 38,553,706
Interest Income - Investments	6,799,524	4,456,214	11,255,738	262,795	43,562	(15,242)	11,546,853	9,578,702
Fee Income	23,651	18,726	42,377	68	273,672	-	316,117	315,600
Federal Financial Assistance	763	142,746	143,509	235,536	-	-	379,045	598,450
Net Increase (Decrease)			-					
in Fair Value of Investments	(194,917)	(776,291)	(971,208)	(51,757)	-	-	(1,022,965)	(2,958,275)
Other Income	32,135	32,135	64,270	-	-		64,270	65,519
Securities Lending Gross Income	16	17	33		56	2	91	609
Total Operating Revenues	$ 32,053,451	$ 21,530,242	$ 53,583,693	$ 1,317,910	$ 424,953	$ 26,337	$ 55,352,893	$ 46,154,311
OPERATING EXPENSES								
Interest on Bonds	$ 24,724,867	$ 16,040,036	$ 40,764,903	$ 691,069	$ -	$ -	$ 41,455,972	$ 37,272,424
Servicer Fees	1,596,686	1,247,059	2,843,745	16,491	-	-	2,860,236	2,534,834
Contracted Services	483,517	620,594	1,104,111	25,615	14,341	81	1,144,148	1,039,470
Amortization of Bond Issuance Costs	648,321	399,683	1,048,004	10,664	-	-	1,058,667	362,622
General and Administrative	633,816	639,485	1,273,301	173,949	200,008	17	1,647,275	1,645,907
Arbitrage Rebate Expense	229,537	126,771	356,308	-	-	-	356,308	300,379
Loss on Redemption	313,343	277,875	591,218	-	-	-	591,218	947,732
Securities Lending Expense	16	17	33		56	2	91	609
Total Operating Expenses	$ 28,630,103	$ 19,351,519	$ 47,981,622	$ 917,788	$ 214,405	$ 100	$ 49,113,915	$ 44,103,978
Operating Income (Loss) Before Transfers	3,423,349	2,178,722	5,602,071	400,122	210,548	26,237	6,238,978	2,050,333
Payment to Primary Government		(271)	(271)				(271)	
Transfers In(Out)*	(1,250,000)		(1,250,000)	-	1,250,000	-		-
Increase (Decrease) in Net Assets	2,173,349	2,178,451	4,351,800	400,122	1,460,548	26,237	6,238,707	2,050,333
Net Assets, Beginning of Year	47,927,664	76,314,440	124,242,104	9,612,169	3,297,752	2,847,108	139,999,133	137,960,360
Prior Period Adjustment			-	-	-	-	-	(11,560)
Net Assets, End of Year	$ 50,101,013	$ 78,492,891	$ 128,593,904	$ 10,012,291	$ 4,758,300	$ 2,873,344	$ 146,237,840	$ 139,999,133

* Transfers record the movement of funds between programs. The $1,250,000 fiscal year 2007 transfer provided funding for the Reverse Annuity Mortgage Program from the Single Family I Program. The transfer is excluded from the Board's Statement of Revenues, Expenses and Changes in Net Assets since the transfer is not made to an external entity.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals 2007	Combined Totals 2006
CASH FLOWS FROM OPERATING ACTIVITY								
Receipts for Sales and Services	$ 23,651	$ 19,773	$ 43,424	$ 68	$ 267,730	$ -	$ 311,222	$ 315,600
Collections on Loans and Interest on Loans	59,780,821	81,669,232	141,450,053	1,633,478	258,610	58,943	143,401,084	142,053,626
Cash payments for Loans	(187,521,863)	(3,182,509)	(190,704,372)	-	(847,020)	(108,140)	(191,659,532)	(153,394,580)
Federal Financial Assistance Receipts	-	141,983	141,983	235,536	-	-	377,519	631,089
Payments to Suppliers for Goods and Services	(2,153,564)	(2,151,035)	(4,304,599)	(116,152)	(32,875)	(1,349)	(4,454,975)	(4,287,654)
Payments to Employees	(372,099)	(372,099)	(744,198)	(94,539)	(116,072)	-	(954,809)	(968,617)
Other Operating Revenues	32,914	31,867	64,781	-	5,942	-	70,723	67,872
Net Cash Provided (Used) by Operating Activities	$ (130,210,140)	$ 76,157,212	$ (54,052,928)	$ 1,658,390	$ (463,684)	$ (50,546)	$ (52,908,768)	$ (15,582,664)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Payment of Principal and Interest on Bonds and Notes	$ (99,228,560)	$ (73,213,344)	$ (172,441,904)	$ (964,900)	$ -	$ -	$ (173,406,804)	$ (154,169,130)
Proceeds from Issuance of Bonds and Notes	239,910,000	-	239,910,000	-	-	-	239,910,000	152,840,000
Payment of Bond Issuance Costs	(2,565,797)	-	(2,565,797)	-	-	-	(2,565,797)	(2,275,232)
Premium Paid on Refunding Bonds	4,942,494	-	4,942,494	-	-	-	4,942,494	2,477,860
Due From (To) Other Funds*	464,475	525,525	990,000	-	(990,000)	-	-	0
Transfers in (out)**	(1,250,000)	-	(1,250,000)	-	1,250,000		-	0
Net Cash Provided (Used) by Noncapital Financing Activities	$ 142,272,612	$ (72,687,819)	$ 69,584,793	$ (964,900)	$ 260,000	$ -	$ 68,879,893	$ (1,126,502)
CASH FLOWS FROM CAPITAL ACTIVITIES								
Purchase of fixed assets	$ -	$ -	$ -		$ (22,329)		$ (22,329)	$ (14,040)
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchase of Investments	$ (596,052,734)	$ (451,022,731)	$ (1,047,075,465)	$ (2,307,000)	$ -	$ -	$ (1,049,382,465)	$ (1,173,189,259)
Proceeds from Sales or Maturities of Investments	580,126,966	446,991,586	1,027,118,552	3,120,748	-	-	1,030,239,300	1,182,924,810
Interest on Investments	6,787,902	2,349,375	9,137,277	262,795	40,765	1,559	9,442,396	9,509,575
Arbitrage Rebate Tax	-	(300,485)	(300,485)	-	-	-	(300,485)	(421,329)
Net Cash Provided (Used) by Investing Activities	$ (9,137,866)	$ (1,982,255)	$ (11,120,121)	$ 1,076,543	$ 40,765	$ 1,559	$ (10,001,254)	$ 18,823,797
Net Increase (Decrease) in Cash and Cash Equivalents	$ 2,924,606	$ 1,487,138	$ 4,411,744	$ 1,770,033	$ (185,248)	$ (48,987)	$ 5,947,542	$ 2,100,591
Cash and Cash Equivalents,beginning bal.	$ 1,556,693	$ 2,196,765	$ 3,753,458	$ 1,600,685	$ 2,273,988	242,305	$ 7,870,436	$ 5,771,587
Prior Period Adjustment								(1,742)
Cash and Cash Equivalents, ending bal.	$ 4,481,299	$ 3,683,903	$ 8,165,202	$ 3,370,718	$ 2,088,740	$ 193,318	$ 13,817,978	$ 7,870,436

* Interfund Payable & Receivable records a temporary loan between Board program funds that is expected to be repaid within one year. The loan is excluded from the Board's Statement of Net Assets because it is not an obligation to an external entity. The Statement of Net Assets Current Assets and Current Liabilities balances therefore does not include the amount of this loan.

** Transfers record the movement of funds between programs. The $1,250,000 fiscal year 2007 transfer provided funding for the Reverse Annuity Mortgage Program from the Single Family I Program. The transfer is excluded from the Board's Statement of Cash Flows since the transfer is not made to an external entity.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only) FY 2007	Combined Totals (Memorandum Only) FY 2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES								
Operating Income	$ 3,423,349	$ 2,178,722	$ 5,602,071	$ 400,122	$ 210,548	$ 26,237	$ 6,238,978	$ 2,050,333
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:								
Depreciation	$ 11,476	$ 11,826	$ 23,302	38	515	-	23,855	30,142
Amortization	467,677	(129,048)	338,629	11,833	-	-	350,462	443,182
Interest Expense	25,218,854	16,846,643	42,065,497	684,014	-	-	42,749,511	38,139,556
Interest on Investments	(6,799,524)	(4,456,214)	(11,255,738)	(262,795)	47,010	(1,702)	(11,473,225)	(9,578,702)
Arbitrage Rebate Tax	229,537	126,771	356,308	-	-	-	356,308	300,379
(Incr) Decr in Fair Value of Investments	194,917	776,291	971,208	51,757		-	1,022,965	2,958,275
Change in Assets and Liabilities:								
Decr (Incr) in Mortgage Loans Receivable	(147,841,408)	60,414,712	(87,426,696)	747,576	(639,844)	(48,083)	(87,367,047)	(47,338,337)
Decr (Incr) in Other Assets	(1,097,699)	256,904	(840,795)	22,003	(129,548)	(25,747)	(974,087)	(111,910)
Incr (Decr) in Accounts Payable	97,485	24,242	121,727	2,347	45,771	(1,251)	168,594	(24,545)
Incr (Decr) in Deferred Reservation & Disc. Fees	(4,120,686)	100,480	(4,020,206)	-	-	-	(4,020,206)	(2,468,099)
Incr (Decr) in Compensated Absences Payable	5,882	5,883	11,765	1,495	1,864	-	15,124	17,062
Net Cash Provided by (Used for) Operating Activities	$ (130,210,140)	$ 76,157,212	$ (54,052,928)	$ 1,658,390	$ (463,684)	$ (50,546)	$ (52,908,768)	$ (15,582,664)

MONTANA
Department of Commerce

MONTANA BOARD OF HOUSING
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November 1, 2007

Scott A. Seacat
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Seacat:

We have received and reviewed the financial audit of the Montana Board of Housing for the fiscal year ended June 30, 2007. We are pleased with the unqualified opinion. We appreciate the professionalism and courtesy with which the audit was conducted. We realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation.

I am looking forward to speaking with the Audit Committee regarding the operations of the Board of Housing.

Sincerely,

Bruce Brensdal

Bruce Brensdal
Executive Director